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CHINA:

Reasserting Economic Retrenchment

Premier Li Peng's tepid endorsement of economic reform and call for continued efforts to combat inflation in his speech to senior officials on Tuesday indicate Beijing will seek to tighten central controls during the next few months.

In his first major remarks on the economy since the turmoil began, Li claimed success in slowing inflation earlier this year but said controlling price rises remains Beijing's top economic priority. To ease inflationary pressure, he called for curbs on capital construction and consumer spending and stressed the need to shift resources from rapidly growing, locally run enterprises to key sectors, like energy and transportation. In addition, Li called for solving problems in agriculture, particularly rural credit shortages that reportedly have forced state procurement agents to pay peasants with IOUs instead of cash.

Li criticized some elements of state-run Chinese media for not following party guidance in reporting on the disturbances.

Li gave only a vague endorsement to China's opening to the West.

This speech was designed to underscore continuity with the economic policy course laid out late last year, which emphasized austerity over reform, and to lay out the hardliners' political agenda, including new ideological and anticorruption campaigns. Beijing probably will expand its control of previously freed prices and may try to limit the access of some local enterprises to raw materials.

Chinese leaders almost certainly realize, however, that the recent turmoil has made it more difficult for them to ease fundamental economic imbalances and reassert central controls. The warning to Chinese media to toe the line shows Beijing's determination to control closely the reporting on the economy this summer. Li's virtual silence on China's economic policy toward the West suggests that issue is being sharply debated.

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